

INTERNAL REVENUE SERVICE
McCaslin Industrial Park
2 Cupania Circle
Monterey Park, CA 91755-7431

Department of the Treasury

Date: JUL 13 1999

Employer Identification Number:

DLN:

Person To Contact:

Telephone Number:

Refer reply to:

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under Section 501(c)(6).

FACTS:

The information submitted disclosed that you were formed under the [REDACTED] under the name, [REDACTED]

You had changed your name to [REDACTED]. Your membership consisted of licensed psychiatrists, psychologists, clinical social workers, and psychiatric nurse practitioners who are licensed to act as independent practitioners in [REDACTED]. Your purpose is to provide high quality, managed mental health care through referral of individual private practices.

The activities of your organization, as stated on Form 1024, include the following:

- (1) Holding one contract with a managed health care company to conduct referral services for specialized care;
- (2) Providing membership services through newsletters, business discounts for members, a means for independent practitioners to network, etc.; and
- (3) Sponsoring workshops to members to improve their skills.

The organization's financial support is derived from:

- (1) Administrative fees;
- (2) Membership dues; and
- (3) Continuing education workshops.

ISSUE:

Does the organization qualify for exemption from federal income tax as an organization described in Section 501(c)(6)?

LAW:

Section 501(c)(6) of the Internal Revenue Code provides for the exemption of business league, chambers of commerce, real estate boards, boards of trade, and professional football league, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having same common business interest, whose purposes is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Thus its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services of individual persons.

Revenue Ruling 86-98, 1986-2 C.B. 74 provides that an individual practice association providing health services through written agreement with a health maintenance organization (HMO) does not qualify for exemption from federal income tax under section 501(c)(4) or 501(c)(6) of the Code.

National Muffler Dealers Association, Inc. v. U.S., 440 U.S. 472 (1979), held that the organization does not better conditions for all dealers in a particular community, but, instead, is devoted to maximizing fees for its members. Therefore, the organization does not operated as a business league within the meaning of section 1.501(c)(6)-1 of the Regulations.

ANALYSIS:

In order to qualify for exemption as a business league described in Section 501(c)(6) of the Code, an organization's activities must be directed toward the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

[REDACTED]

Your primary activity is to provide high quality, managed mental health care through individual private practice and offer an economically competitive program through individual and group cost incentives. About 10% of your activities is to provide referral services and this arrangement furthers your members' ability to enhance their private practices. About 10% of your activities is to provide various services to members; for example, 1) newsletters that provide information on available office space, job openings, 2) business discounts, such as, cleaning services, cellular phone and paging, car rental, and 3) means for networking. Only 10% of your activities were sponsored workshops for your members. In addition, your organization does not provide to HMO patients access to mental care which would not have been available but for the establishment of your organization, nor does it provide such care at fees below what is customarily and reasonably charged by members in their private practices. Membership in your organization is restricted to mental health practitioners who are subject to written service agreements.

Thus, your organization does not improve conditions for all mental health practitioners in a particular community, but instead, is devoted to maximizing fees for its members. As in the case in Revenue Ruling 86-98, the organization is rendering particular services for its members. In reference to your facts, it appears that your activities constitute the performance of particular services to the members, and the activities are not directed toward the improvement of business conditions as a whole.

CONCLUSION:

It is the position of the Internal Revenue Services that your organization does not qualify for exemption from Federal Income Tax under Section 501(c)(6) of Internal Revenue Code.

Accordingly, you are required to file income tax return on Form 1120, U. S. Corporate Income Tax Return, annually with your respective service center.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed Form 6018, Consent to Proposed Adverse Action.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals, your request for a hearing should include a appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director Office.

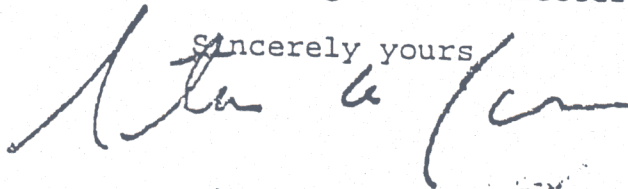
[REDACTED]

If we do not hear from you within 30 days from the date of this letter, and you do not protest the proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determined that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

We have sent a copy of this letter to your representatives as indicated in your power of attorney.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours



District Director

Enclosure(s).

Revenue Ruling 86-98
Publication 892
Form 6018